



Program Evaluation Report

Idaho Department of Environmental Quality
Drinking Water State Revolving Fund
State Fiscal Year 2015

December 2015

Final

Executive Summary

The Idaho Department of Environmental Quality (IDEQ) Water Quality Program Office manages the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF) and a planning grant program, as well as other water quality programs. IDEQ has administered the Drinking Water State Revolving Fund since the program's inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching contribution of \$2,831,560. Through the end of State Fiscal Year (SFY) 2015 Idaho has received \$178 million in capitalization grants and has provided \$36 million in state match.

The principal strengths of the Idaho DWSRF program continue to be:

- An experienced and highly capable group of DEQ professional staff. These people invest considerable time and effort in assisting potential loan applicants with project development, as well as oversight of the projects that are currently under construction with DWSRF financing.
- Demonstrated success at providing additional grant subsidies through the Disadvantaged Assistance Loan program to help struggling water systems maintain or achieve compliance with drinking water regulations.
- Impressive use of the DWSRF set-aside funds for a variety of innovative purposes. This includes using set-aside funds to provide matching grants so that water systems can hire professional engineers to prepare facility planning documents in preparation for an infrastructure project, and using set-aside funds to identify potential threats to sources of drinking water, and then implement measures to better protect those drinking water sources.
- A strong partnership with local Councils of Government (COGs) to help borrowers with project management and implementation of some of the Federal requirements such as Davis–Bacon that now apply to the DWSRF program. More recently, Idaho reached out to the engineering community to help develop implementation guidance for the new American Iron and Steel (AIS) requirement.
- Successful voluntary Green Project Reserve (GPR) implementation. The GPR requirement ended for the DWSRF program after the FFY 2011 round of funding, but Idaho continues to encourage systems to incorporate GPR. During SFY 2015 the state reported more than \$6 million in GPR related activities from the projects recently financed by the DWSRF program. This is an important accomplishment toward helping water systems become more sustainable.

In the Program Evaluation Report (PER) for the last couple of annual reviews EPA has raised the issue of loan program pace. During the SFY 2015 annual review that occurred in November 2015, we discussed the continued low loan demand, another pending transfer of

unneded DWSRF program to the CWSRF program, and ways to make the DWSRF program more marketable.

Loan Demand: For the last two fiscal years, Idaho's pace of committing available loan funds has been low, evidenced by the need to transfer \$10 million in 2014 and another \$10 million during SFY 2016 from the DWSRF to the CWSRF. While transfers are clearly an eligible activity, and do address two short term needs – meeting higher loan demand in the CWSRF, and removing unneded funds from the DWSRF – transfers fail to address the longer term issue of loan demand. If the trend continues into the future, the Idaho DWSRF could encounter problems related to fully expending capitalization grant funds within the recently abbreviated timeframe of 24 months.

Use of Fees: Idaho has been charging administrative fees for a few years in the CWSRF program, and for a shorter period of time in the DWSRF program. The state is now planning to begin using this fee income as a partial source of state match for the DWSRF. EPA Region 10 is in the final stages of preparing a letter that would explain the mechanism by which fee income could be used for match.

Introduction

This Program Evaluation Report (PER) summarizes the results of an annual review of the Idaho Drinking Water State Revolving Fund (DWSRF) conducted by the Environmental Protection Agency (EPA) for State Fiscal Year (SFY) 2015. The review is based on several critical elements:

1. The Intended Use Plan (IUP) for the SFY 2015 Idaho DWSRF program.
2. The SFY 2015 Annual Report for the Idaho DWSRF, covering the period from July 1, 2014 to June 30, 2015 (SFY 2015).
3. An analysis of data for State Fiscal Year 2015 submitted by Idaho DWSRF staff and maintained in EPA's Drinking Water National Information Management System (DWNIMS).
4. An analysis of project data for State Fiscal Year 2015 submitted by Idaho DWSRF staff and maintained in EPA's Drinking Water Project and Benefits Reporting (PBR) system.
5. An on-site discussion of the DWSRF program with IDEQ staff, and a review of project files on November 16-18, 2015.
6. The SFY 2014 Individual Entity Audit Report, as well as the Single Audit Report 90-Day Follow-up, completed by the Idaho State Legislative Services Office.

IDEQ Program Summary

The Idaho Department of Environmental Quality has administered the Drinking Water State Revolving Fund since the program's inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching

contribution of \$2,831,560. Through the end of SFY 2015, the EPA has awarded \$178,522,324 in capitalization grants and the state has deposited \$36,804,465 in matching contributions, for a total of \$215,326,789 in initial capitalization. The total value of the capitalization for the DWSRF will increase every year due to the interest that the DWSRF earns on its loan portfolio as well as on its invested cash balance. Table 1 below shows a history of Federal capitalization and grant-by-grant expenditure information for the Idaho DWSRF.

Table 1: Idaho DWSRF Federal Capitalization Summary					
Grant #	Grant Amount	Total Draws thru June 30, 2014	Draws during SFY 2015	Total Draws thru June 30, 2015	Undrawn Funds at June 30, 2015
FS-980030-97	\$ 14,157,800	\$ 14,157,800	\$ -	\$ 14,157,800	\$ -
FS-980030-98	\$ 7,121,300	\$ 7,121,300	\$ -	\$ 7,121,300	\$ -
FS-980030-99	\$ 7,463,800	\$ 7,463,800	\$ -	\$ 7,463,800	\$ -
FS-980030-00	\$ 7,757,000	\$ 7,757,000	\$ -	\$ 7,757,000	\$ -
FS-980030-01	\$ 7,789,100	\$ 7,789,100	\$ -	\$ 7,789,100	\$ -
FS-980030-02	\$ 8,052,500	\$ 8,052,500	\$ -	\$ 8,052,500	\$ -
FS-980030-03	\$ 8,004,100	\$ 8,004,100	\$ -	\$ 8,004,100	\$ -
FS-980030-04	\$ 8,303,100	\$ 8,303,100	\$ -	\$ 8,303,100	\$ -
FS-980030-05	\$ 8,285,500	\$ 8,285,500	\$ -	\$ 8,285,500	\$ -
FS-980030-06	\$ 8,229,300	\$ 8,229,300	\$ -	\$ 8,229,300	\$ -
FS-980030-07	\$ 8,229,000	\$ 8,229,000	\$ -	\$ 8,229,000	\$ -
FS-980030-08	\$ 8,146,000	\$ 8,146,000	\$ -	\$ 8,146,000	\$ -
2F-960884-01	\$ 19,500,000	\$ 19,500,000	\$ -	\$ 19,500,000	\$ -
FS-980030-09	\$ 8,146,000	\$ 8,146,000	\$ -	\$ 8,146,000	\$ -
FS-980030-10	\$ 13,573,000	\$ 13,573,000	\$ -	\$ 13,573,000	\$ -
FS-980030-11	\$ 9,418,000	\$ 8,809,963	\$ 608,037	\$ 9,418,000	\$ -
FS-980030-12	\$ 9,080,824	\$ 6,839,191	\$ 2,241,633	\$ 9,080,824	\$ -
FS-980030-13	\$ 8,421,000	\$ 4,560,620	\$ 2,676,553	\$ 7,237,173	\$ 1,183,827
FS-980030-14	\$ 8,845,000	\$ -	\$ 3,789,078	\$ 3,789,078	\$ 5,055,922
Total	\$ 178,522,324	\$ 162,967,274	\$ 9,315,301	\$ 172,282,575	\$ 6,239,749

Source: (EPA's Compass Data Warehouse)

DWSRF Public Health Benefits

The DWSRF program is a government funded infrastructure financing program designed to provide significant public health benefits by ensuring delivery of clean and safe drinking water. The majority of each year's capitalization grant is used to provide low interest loans to public water systems to help them maintain, or return to, compliance with drinking water regulations. The table below illustrates Idaho's success in delivering these benefits since program inception in 1998.

Table 2: Idaho DWSRF Public Health Benefit Summary (1998-2015)			
Categories of Assistance	# Loans	\$ Loans	Population
Assisting Non-Compliant Systems Achieve Compliance	42	\$ 111,833,060	100,372
Assisting Compliant Systems Maintain Compliance	40	\$ 89,576,816	182,598
Assisting Compliant Systems to Meet Future Requirements	2	\$ 600,922	480
Total:	84	\$ 202,010,798	283,450

Source: (DW NIMS)

The other very significant piece of helping public water systems deliver clean and safe drinking water is the DWSRF set-asides. Up to 31% of each DWSRF capitalization grant can be reserved for direct grant funding by the state

for such purposes as DWSRF administration and technical assistance (4%), small systems technical assistance (2%), state program management, including PWSS program supplemental funding (10%), and state and local assistance (15%). Idaho continued experiencing significant turnover in drinking water staffing during 2015. This staff turnover also occurred with the EPA R10 and impacted the regional coordinator position. The turnover delayed implementation of some of the capacity development and small system technical assistance initiatives funded by the DWSRF set-asides. In particular, this turnover postponed the update to Idaho's technical, financial, and managerial (TFM) guidance document. DEQ believes the TFM guidance document provides the foundation for capacity development program.

For 2016, the EPA and DEQ will collaborate on developing a capacity development work plan that not only builds on the completed TFM guidance, but also results in an annual report that describes measurable outcomes from the program.

Below are some highlights from activities undertaken with Idaho DWSRF set-aside funding:

Set-Aside Activity Highlights

- Completed 139 source water assessment reports, of which 59 were new assessments with delineations and 80 were updated assessments.
- Helped 13 communities certify or recertify source water protection plans increasing the total population of Idaho residents with source water protection to 687,120. DEQ also contracted the Idaho Rural Water Association (IRWA) to complete 10 source water protection plans.
- DEQ reviewed the 1999 Source Water Assessment Plan (SWAP) to evaluate the implementation status of the recommendations. Based on interviews with

over 35 programs, DEQ determined that many of the recommendations had been implemented and developed future recommendations to improve the source water program.

- Provided 4 full day training workshops in Boise, Twin Falls, Pocatello and Lewiston for 113 attendees and 53 different outreach events. Also, DEQ presented the Idaho Nitrate Symposium to increase awareness of the impacts of nitrate contamination on drinking water sources, recognize potential partners, and identify effective solutions to better protect Idaho's drinking water sources. This first-time event was very successful with over 90 participants in attendance. DEQ intends to build off the workshop results and conduct more training in 2016.
- Completed 337 plan and spec reviews, 542 engineering projects and 456 enhanced sanitary surveys. The majority of technical assistance provided to public water systems occurs during these activities.
- DEQ continued collaboration with IRWA, a third-party provider, to target their technical assistance to systems using the sanitary survey Preliminary Inspection Findings Form (PIFF). IRWA provided assistance to 23 systems using this method.
- DEQ continued its Sanitary Survey Continuing Education Units (CEUs) program in 2015, issuing 54 CEU certificates to operators of very small systems. This program has been successful in increasing the operator's knowledge of not only drinking water system requirements, but also in how to effectively operate their system.
- Conducted three optimization trainings for operators that have surface water sources in Coeur d'Alene, Boise, and Lewiston. DEQ also produced 38 outreach products comprising 11 PWS Switchboard related postings and 27 auto-dialer calling events which totaled 3,676 calls. The auto-dialer events continue to successfully increase compliance, particularly related to monitoring requirements. Since its commencement in 2008, DEQ has observed a 53% reduction in failure-to-monitor violations.
- DEQ provided technical and capacity development assistance to 9 new water systems in SFY 2015.
- Continued improvements to the in-house SDWIS QA/QC tool to ensure high data quality. DEQ depends on this information to provide effective technical assistance and capacity development. According to the National Data Quality Matrix, Idaho was tops in the nation for data quality.

- DEQ addressed 104 systems on the enforcement targeted tracking (ETT) list through technical assistance, capacity development, infrastructure loans, and compliance activities.

Sustainability: GPR/Climate Change/Extreme Weather/Adaptation/Resiliency

The DWSRF program's primary mission of delivering public health benefits has been in place since program inception. More recently the DWSRF program has been encouraged to branch out into funding loans (and providing set-aside funding for) projects or activities under the broad umbrella of sustainable infrastructure.

Typically this activity occurs when a project is needed to address an existing public health problem. In the course of addressing that problem, the borrower often installs a newer, more energy efficient water pump, meter, or some other type of device. Or if the project is rehabilitating a leaking water reservoir, water main, or installing new water meters, the water system will very likely see an improvement in water conservation. There are also many non-project activities, funded by set-asides, whereby water systems can become more sustainable. These include water audits, energy audits, facility planning grants, long-term resiliency planning, source water protection grants, among others. In addition, the DWSRF's complementary program, Capacity Development, has since program inception in 1998 been helping water systems deal with sustainability issues by developing or maintaining their Technical, Financial, or Managerial capacity.

For a couple of years after ARRA, the DWSRF program was required to provide a prescribed amount of funding for GPR activities. However, even though this requirement ended in 2011, the Idaho DWSRF has continued to encourage GPR funding. As noted in the Executive Summary, during the most recent period, more than \$6 million in GPR funding was recorded. More information about the sustainability elements of these projects can be found in the SFY 2015 DWSRF Annual Report (pages 10-11), at this link:

<http://www.deq.idaho.gov/media/60177626/dwsrf-annual-report-fy15.pdf>

The Project Fund

The Idaho DWSRF is operated as a direct loan program. Through the end of SFY 2015 it had \$232,585,126 (Federal Grant Funds + State Match + Loan Repayments and Interest Earnings – Set-Asides) available for providing loan assistance to public water systems. Through the end of the same time period it had executed binding commitments for a total of 89 projects with a cumulative assistance amount of \$210,208,717. It thus had committed 90% of the available funds. That was again less than the national average of 93% for this same time period, but an improvement over the amount of loans signed during the previous two years. The uptick this year helped the Region 10 DWSRF program continue to maintain the highest fund utilization rate in the country.

Newer Programmatic Requirements

Additional Subsidy Reserve: Beginning with ARRA in 2009, each state is required to provide at least a minimum amount of additional subsidy (grant) funding to borrowers. The table below shows Idaho's performance to date at meeting this requirement. For the older grants (2010 and 2011) that still show a shortfall on subsidy commitment and/or expenditure, Idaho is in the process of sending out amendments to increase the subsidy component of outstanding loans.

Table 3: Idaho DWSRF Additional Subsidy Reserve Performance (2009 - 2015)						
Grant #	Grant Amt	ASR % (req)	ASR \$ (req)		ASR \$ committed	ASR \$ expended
FS98003010	\$ 13,573,000	at least 30%	\$ 4,071,900		\$ 4,027,398	\$ 4,027,398
FS98003011	\$ 9,418,000	at least 30%	\$ 2,825,400		\$ 2,777,238	\$ 2,777,238
FS98003012	\$ 8,975,000	at least 20%, no more than 30%	\$ 1,795,000	\$ 2,692,500	\$ 2,692,800	\$ 1,435,817
FS98003013	\$ 8,421,000	at least 20%, no more than 30%	\$ 1,684,200	\$ 2,526,300	\$ 1,795,000	\$ 548,791
FS98003014	\$ 8,845,000	at least 20%, no more than 30%	\$ 1,769,000	\$ 2,653,500	\$ 2,211,250	\$ -
Totals:	\$49,232,000		\$12,145,500	\$11,944,200	\$13,503,686	\$ 8,789,244

Source: (PBR, state reported data)

Davis-Bacon Wage Rates: Also starting with ARRA in 2009 and continuing to apply to the DWSRF program, each state is required to ensure that all loan contracts with borrowers, and the subsequent construction contracts between borrowers and contractors contain the correct language about Davis-Bacon wage rates. This language is intended to ensure that all construction workers are being paid the appropriate wages for the type of work they are doing. To help many of the smaller DWSRF borrowers comply with this requirement, Idaho has encouraged them to coordinate with Councils of Government. This arrangement seems to be paying dividends in terms of oversight and compliance, and other states in Region 10 are considering using the same approach. However, despite this coordination opportunity, over the last few years, a large number of borrowers have opted to get financing elsewhere. Idaho recently requested a deviation from this requirement for small water systems (serving a population of less than 10,000); however, EPA HQ denied the deviation request.

Table 4: Idaho DWSRF ULO Status Through 6/30/15	
Legacy Funds Remaining	\$ 1,183,827
Legacy and Post 2014 Funds Remaining	\$ 6,239,749
Idaho's average monthly "burn" rate	\$ 725,878
Estimated number of months to expend all funds remaining	8.6

Source: (EPA HQ ad hoc reporting on ULOs)

Unliquidated Obligations (ULOs):

The DWSRF ULO reduction strategy says that, starting with the FFY 2014 capitalization grant, states are expected to fully expend new capitalization grants within 24 months of award. In addition, all remaining grant funds awarded prior to FFY 2014 (defined now as "legacy"

funds) are required to be expended by September 30, 2016. The table shows Idaho's status at the end of SFY 2015 with regard to meeting this requirement.

American Iron and Steel: As noted in previous PERs, a Buy American requirement applied to all projects using DWSRF ARRA funds. After ARRA, successive grants contained no similar language until the FFY 2014 appropriation bill imposed a new requirement, called American Iron and Steel (AIS). This requires DWSRF assistance recipients (borrowers) to use iron and steel products that are produced in the U.S. for their water system projects. This requirement was effective January 17, 2014 through September 30, 2014, and was reapplied to the DWSRF program for FFY 2015. Idaho has made sure that the correct AIS language is being incorporated into loan contracts and construction contracts. To date, no project specific issues with AIS implementation have been reported. However, like Davis-Bacon, AIS has proven to be a significant deterrent to small water system participation in the DWSRF program. In fact, the Idaho DWSRF has lost numerous projects, in the amount of several millions of dollars, to other funding programs because of this requirement. The waiver request that Idaho sent to EPA HQ also sought relief from this requirement as well, for small water systems in the state of Idaho. That waiver request was denied.

Interest Rates

The Idaho DWSRF currently sets loan rates once a year. The basic interest rate for SFY 2015 was 2.75%. During this period the one loan signed by the state was signed at 1.75%. As a result the average loan rate continued to be on par with most other Region 10 states as well as the national average. The term for DWSRF loans is capped at 20 years, with the exception of disadvantaged loans, which may have up to a 30-year term, and an interest rate as low as 0%. Idaho made one disadvantaged loan during this period.

Table 5: Region 10 DWSRF Comparative Weighted Averaged Loan Rates			
	State Fiscal Year		
State	2013	2014	2015
Alaska	1.50%	1.50%	1.50%
Idaho	1.12%	1.53%	1.66%
Oregon	2.57%	1.53%	2.37%
Washington	1.28%	1.39%	1.36%
U.S.	1.89%	1.78%	1.66%

Table 5 compares Idaho's DWSRF weighted average loan rates with the rates of other Region 10 DWSRF programs, as well the average loan rate of all DWSRF loan programs in the nation. The table below shows that Idaho's average loan rate is comparable to other states in Region 10 and at parity

with the national average.

State Match [40 CFR §35.3550(g)]

The State of Idaho contributes match from appropriations approved by the state legislature and will be starting to use fee income to meet part of the match requirement. The table below shows the match contributions that Idaho has made to its DWSRF, including the contributions made during SFY 2015. Idaho continues to meet the matching requirement.

Table 9: Disbursements as a Percentage of Funds Available				
SFY	Funds Available for Projects	Loan Disbursements	Idaho	U.S.
2013	\$ 212,238,172	\$ 154,806,703	73%	78%
2014	\$ 227,582,623	\$ 169,564,989	75%	79%
2015	\$ 232,585,126	\$ 178,682,729	77%	80%

Source: (DW NIMS)

demonstrate Idaho's performance at utilizing DWSRF funds expeditiously as well as protecting the corpus of the Fund. First, one can look at the portion of available funds that have been committed to loans. Review of the past three years of the Idaho program's pace shows the following:

Table 7:	
SFY	Total Funds
2013	\$212,238,172
2014	\$227,582,623
2015	\$232,585,126

Source: (DW NIMS)

The trend over this three-year period

shows a recent uptick in the percentage of available funds being used to provide loans. For the two previous years, Idaho had trailed the national average of 93% for this measure, but showed

Table 8: Outlays as a Percent of Grants				
SFY	Cumulative Grants	Cumulative Outlays	Idaho	U.S.
2013	\$161,256,324	\$150,147,687	93.1%	90%
2014	\$169,677,324	\$161,514,374	95.2%	92%
2015	\$178,522,324	\$170,829,675	95.7%	94%

Source: (DW NIMS)

improvement for SFY 2015. However, the \$10 million transfer from the DWSRF to the CWSRF was the primary reason for this improvement. If loan demand remains low in the long term, this could present a problem with Idaho's ability to meet the ULO reduction strategy.

Another pace measure looks at how quickly states are spending the grants awarded to them. As shown in the table below, Idaho's cumulative outlays from the Federal Treasury (cash draws for DWSRF loans and the set-asides), increased from 93% in 2013, to nearly 96% in the current period. The national average for this measure was 94%. So in the short term, it appears that Idaho is on pace to expend sufficient funds to meet the ULO strategy.

Table 6: State Match			
Period	Total Capitalization Grants at 6/30/14	Total State Match at 6/30/14	State Match
Totals	169,677,324	35,035,465	20.6%

Source: (DW NIMS)

Program Pace and Perpetuity

The following tables

Table 10: Loan Repayments as a % of DWSRF Assistance				
SFY	DWSRF Assistance	Repayments	Idaho	U.S.
2013	\$ 184,459,364	\$41,377,297	22%	24%
2014	\$ 198,490,335	\$45,492,702	23%	26%
2015	\$ 210,208,717	\$49,755,511	24%	27%

Source: (DW NIMS)

2013	\$212,238,172	\$154,806,703	73%	78%
2014	\$227,582,623	\$169,564,989	75%	79%
2015	\$232,585,126	\$178,682,729	77%	80%

Idaho's loan disbursements have been making solid inroads into the funds available. This compares well with the national trend.

The next two tables measure the revolving rate of the Idaho DWSRF program. The first table shows the percentage of DWSRF assistance (i.e., loans) that is composed of repayments. As the DWSRF program matures, repayments should play a larger part in meeting the need for loans. Idaho's trend over the past three years shows a gradual increase, which compares favorably to the rest of the U.S. Similarly, as shown in Table 11, the trend over the last three years indicates that repayments are also starting to play an important part in paying for loan disbursements.

Table 11: Loan Principal Repayments as a % of Disbursements			
SFY	Disbursements	Repayments	Idaho
2013	\$ 154,806,703	\$ 41,377,297	27%
2014	\$ 169,564,989	\$ 45,492,702	27%
2015	\$ 178,682,729	\$ 49,755,511	28%

Source: (DW NIMS)

Another very important consideration is whether or not the Idaho DWSRF program can continue offering low-interest financing into the foreseeable future. That important question is discussed and evaluated in this section.

Table 12: Loan Yield				
SFY	Loan Interest Earnings	Average Loans Outstanding	Rate of Return	CCI
2013	\$ 1,738,317	\$ 103,687,397	1.7%	2.5%
2014	\$ 1,402,668	\$ 102,888,258	1.4%	2.6%
2015	\$ 1,418,452	\$ 106,338,679	1.3%	2.7%

Source: (Annual Report financial statements, ENR)

on a declining trend, largely because Idaho has been making more disadvantaged assistance loans that provide lower interest rates. At the same time, for all three years the CCI inflation rate has been trending higher than Idaho's loan yield. Losses in the Fund's buying power can be offset by earnings from Fund investment interest to protect the Fund corpus from

eroding. The table above describes this yield over the same time period. A higher yield rate earned on the invested balances (loan interest payments, loan repayments, and interest earnings) can help to offset the potential for inflationary losses from low loan yields. The yield on Idaho's invested DWSRF balances over the last three years has continued to outpace the loan yield. As long as this trend continues, the program can subsidize a lower loan yield with higher investment

The loan yield table looks at the rate of return on the Idaho DWSRF project loan fund over the past three years, compared to the Engineering News-Record's Construction Cost Index (CCI). Over the last three years the rate of return on the loan portfolio has been

Table 13: Investment Yield			
SFY	Investment Interest Revenue	Average Investment Assets	Yield Rate
2013	\$ 577,582	\$ 26,767,528	2.2%
2014	\$ 825,608	\$ 34,511,239	2.4%
2015	\$ 731,903	\$ 35,234,795	2.1%

Source: (Annual Report financial statements)

earnings and not experience significant erosion of the Fund.

Table 14: Comparison of Loan Yield and Investment Yield				
SFY	Average Investment Assets	Actual Investment Revenue	Estimated Loan Earnings	Gain (Loss)
2013	\$ 26,767,528	\$ 577,582	\$ 455,048	\$ 122,534
2014	\$ 34,511,239	\$ 825,608	\$ 483,157	\$ 342,451
2015	\$ 35,234,795	\$ 731,903	\$ 493,287	\$ 238,616

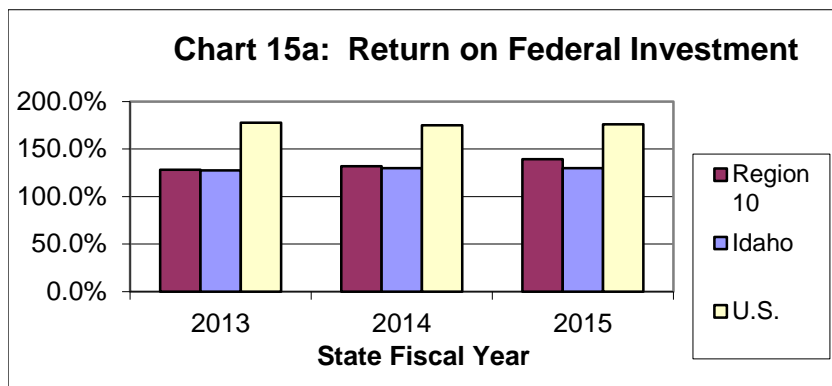
table to the left, because Idaho has been able to maintain a relatively high rate of return on investments, it is thus better able to grow and sustain the Fund than by putting those funds into DWSRF loans. Other states, however, that consistently have a lower investment yield than a loan yield may want to consider treating DWSRF loans as a better method of growing the Fund than investments.

Another way to look at this is by directly comparing the loan yield to the investment yield, and showing the gain (or loss) by choosing to invest DWSRF funds, rather than "investing" them in DWSRF loans. The example shows an improbable scenario where Idaho was loaning out the entire amount of the Fund (i.e., investment assets). As shown in the

Financial Measures

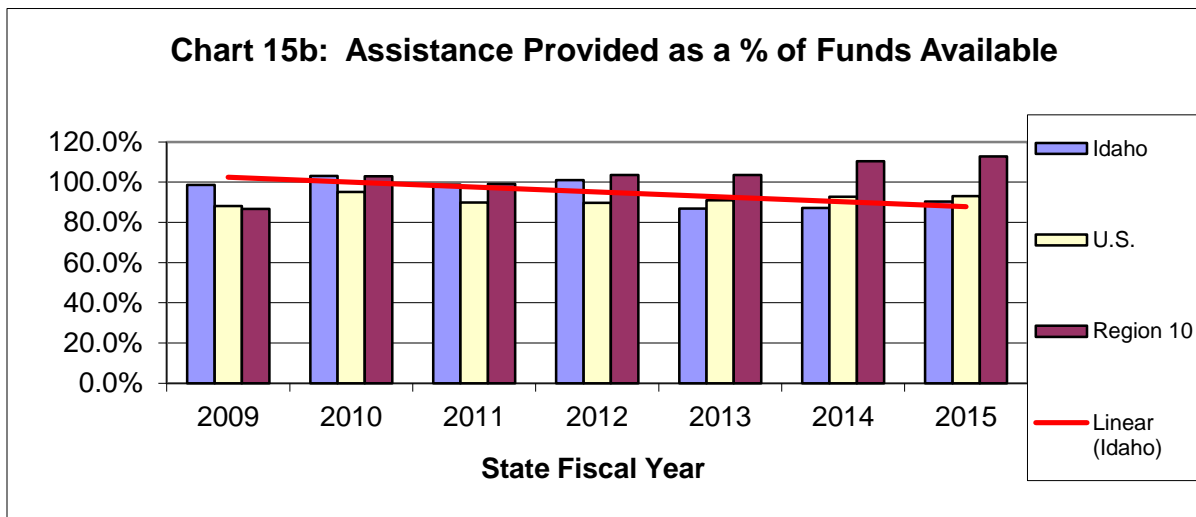
EPA uses a set of financial and programmatic measures for the DWSRF. These measures are (a) Return on Federal Investment, (b) Assistance Provided as a % of Funds Available, (c) Loan Disbursements as a % of Assistance Provided, (d) Net Return/(Loss) after Repaying Match Bonds and Forgiving Principal (Excluding Subsidy), (e) Net Return on Contributed Capital (Excluding Subsidy), and (f) Set-Aside Spending Rate. The current results for each measure for Idaho, along

with a baseline comparison, can be found in the section that follows.

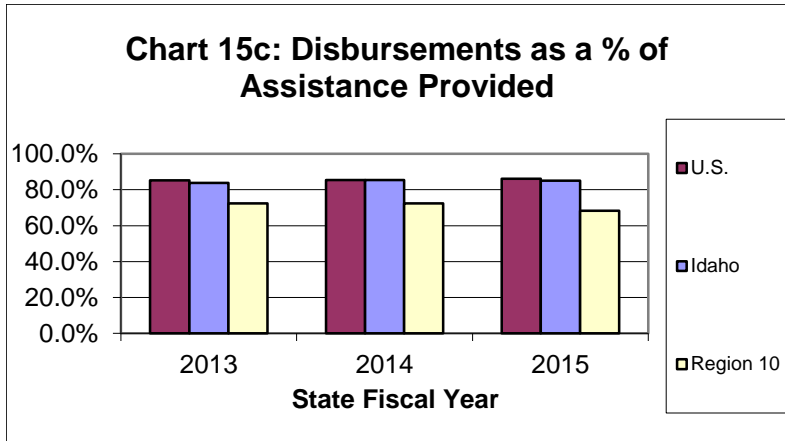


This measure is calculated by dividing the funds disbursed for DWSRF loans by the Federal cash draws for DWSRF loans. In general, the Return on Federal Investment

(ROFI) should be at least 120%. Through the period Idaho has continued to make steady improvement in this measure, topping the threshold level for the last three years. This compares to a national return of 177%.

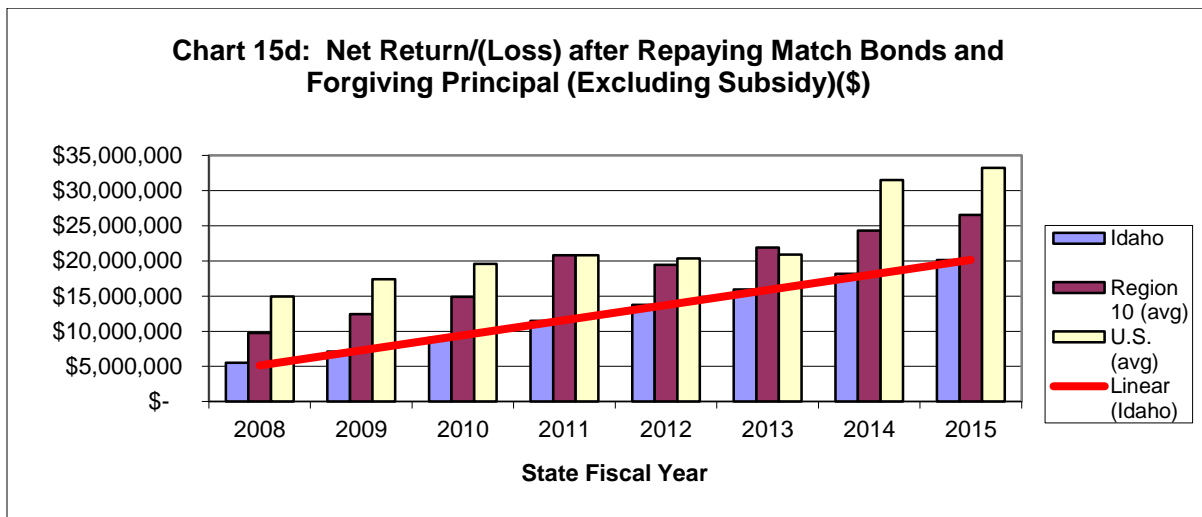


The measure shown in Chart 15b is calculated by dividing the total dollar amount of DWSRF loans by the total amount of funds available for loans. It shows how effectively a state is making loans with the money that is available for loans. Depending on the aggressiveness of a state's cash flow strategy, this measure can exceed 100%. The chart above shows Idaho's performance and trend over the past seven years. Idaho's performance has been good, however, the trend over the time period continues to point downward. While this has been due largely to a lack of demand for loans, the state has also received some unexpected early payoffs on loans due

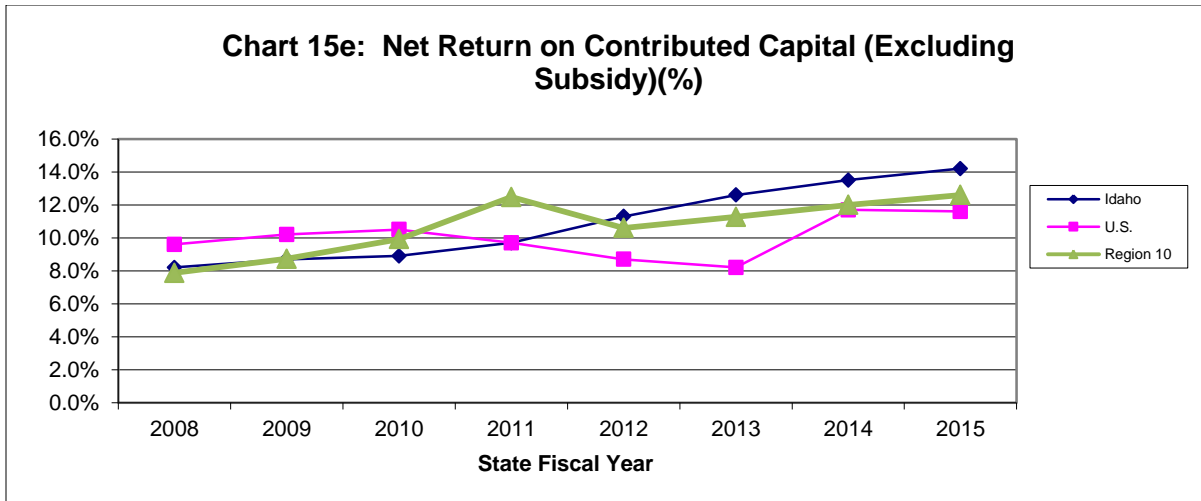


to competition from other funding programs. Regardless of the cause, this indicates a need to commit additional funds to loans, or like what occurred in October, a funds transfer to the CWSRF. One piece of good news, however, is that the short term trend over the last three years has seen an uptick in this measure.

The next measure, illustrated in Chart 15c, shows the speed at which funds from signed loans are disbursed to systems for project construction expenses. It is calculated by dividing the total loan disbursements by the total dollar amount of loans. Idaho's performance on this measure improved from 83% to 85% over the last three years. This compares quite well to the current national average of 86%.

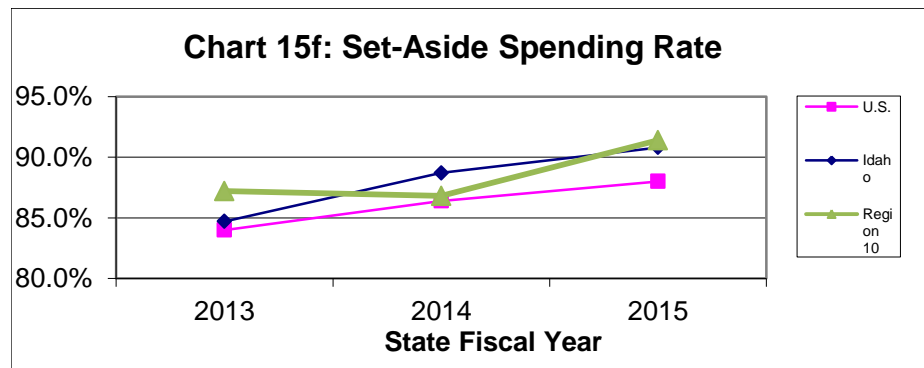


Because ARRA and subsequent capitalization grants have carried the requirement to forgive significant amounts of loan principal, EPA has created two measures to look at fund growth excluding the portion of each capitalization grant that is not intended to revolve. As demonstrated in the measure above, Idaho's growth rate for the past eight years has shown a strongly positive growth trend, much like the Region 10 and national average. In the chart below, Idaho's return rate trailed the national average 4 years ago, but over the last four years has outpaced the national and regional average.



The final measure, shown in Chart 15f, shows how quickly set-aside funds reserved by each state are being utilized. It is calculated by dividing the total amount of set-asides awarded by

the total amount of set-asides expended. Over the last three years Idaho's set-aside spending rate has continued to improve and now at 91% exceeds the national average of 88%.



Cash Draw Rules [40 CFR §35.3560]

The DWSRF regulations require that cash disbursed to borrowers be drawn proportionately from the EPA capitalization grants and the state's matching contributions. Because set-aside use, as well as other factors may have an impact on proportionality, states are given considerable flexibility to choose the proportionality calculation method that works best for them. The Idaho DWSRF uses the grant-specific method. Under that method, cash draws for loan funds were to be drawn from the initial FFY97 grant at the proportional rate of 81% Federal to 19% State, with cash draws from subsequent grants having slightly different proportionality rates depending on the amount of set-asides taken. The Idaho DWSRF program is in full compliance with this requirement through SFY 2015.

Set-Aside Transaction Reviews

As part of the annual review process EPA conducted transaction testing of a sample of 8 set-aside cash draws (for a combined total of \$236,610) made during the period. Please provide responses to questions about several of the transactions summarized in the attached Excel document Set-Aside Transaction Testing worksheet (ID SFY 15.xlsx)].

1. Transactions #1-4, no questions.
2. Transaction #5, there was a payment in the amount of \$204.20 on May 21, 2015 for a **“CWSRF Conference”**. Please explain if this was (a) simply mislabeled, (b) if the CWSRF Conference included training applicable to the DWSRF program, or (c) if the payment should have been charged to the CWSRF program. ***DEQ response: The title “CWSRF Conference” is misleading. This was for a DEQ Board meeting in which both SRF programs were discussed.***
3. Transaction #6, there was a payment in the amount of \$3,746 on February 4, 2015 to the **Orofino JT School Dist” for S417 1013-0614 ReportCardStrea”**. Please explain what this payment was for. ***DEQ response: This was payment for lab supplies/equipment for water quality sampling, and for school buses that were used for a school monitoring project (Report Card For Streams) to monitor a stream used for Orofino’s drinking water source.***
4. Transaction #7, there was a payment in the amount of \$10,000 to the City of Lava Hot Springs for what appears to be a SWP security fencing project. Please explain why the payment was exactly \$10,000. ***DEQ response: The SWP grant was for a maximum of \$10,000; however, the total cost for the fence was \$22,000 in contractual and additional staff labor (as match). DEQ paid the maximum grant amount of \$10,000 and the city paid the remaining costs.)***
5. Transaction #8, no questions.

HQ-Mandated Transaction Testing

In October EPA HQ announced additional required transaction testing for the DWSRF programs nationwide. For the Idaho DWSRF, this requirement did not include any DWSRF transactions.

Region Selected Loan Transaction Testing

During the onsite review two additional loan transactions were selected from the group of projects selected for file reviews.

The first transaction was a \$682,246 loan disbursement request from the **City of Paris**.

On September 10, 2014, the borrower submitted payment request #6 for the period of August 14, 2014 to September 8, 2014. The payment request sought reimbursement for payments to Butler Engineering & Land Surveying, SE Idaho COG, and Whitaker Construction.

The disbursement request was subsequently paid with a blend of repayments (\$413,887), proportional state match (\$60,305), along with a cash draw for \$208,054 taken from grant #FS980030-13 on September 23, 2014.

Comments: None.

The second transaction was a \$162,111 loan disbursement request on February 27, 2015 from **Comore Loma Water Corporation**.

Payment request #6 was for engineering and construction management services provided by Schiess & Associates, well drilling services by Jody Denning Drilling, and bonding/insurance for and shop drawings by Automation Werx, LLC.

The disbursement request was paid with cash draws from two DWSRF grants, FS980030-13 (\$41,940), and FS980030-14 (\$93,166), along with proportional state match (\$27,005).

Comments: None.

Generally Accepted Accounting Principles (GAAP) [40 CFR §35.3135(h)]

The states are required to follow Generally Accepted Accounting Principles in maintaining the financial records for their Drinking Water State Revolving Funds. Idaho follows GAAP in the maintenance of its records. The language of the standard loan contract requires borrowers to follow GAAP in the maintenance of their financial records as well. Loan recipients are required to submit annual financial statements to the Idaho State Legislative Services Office (LSO). These financial statements are available for DWSRF staff to review, beyond the review that is supposed to be provided by the LSO staff.

Reports and Audits [40 CFR §35.3570]

Reporting

The state does three types of reporting to EPA on the progress of the Idaho DWSRF. First, every year it completes a data report that is entered into EPA's Drinking Water National Information Management System (DWNIMS) for the Drinking Water Revolving State Fund. The report for SFY 2015 was submitted and EPA incorporated that data in the final DWNIMS national data set that was presented at the Council of Infrastructure Financing Authorities (CIFA) Conference in November 2015 in Tampa, Florida. The DWNIMS national data was distributed on CD-ROM at the CIFA meeting, and is available on the Internet at the EPA HQ Office of Groundwater and Drinking Water's DWSRF website at: <http://www.epa.gov/safewater/dwsrf/dwnims.html>. The Idaho portion of that data set is the basis for much of this PER. Second, Idaho is required to report project level data on more of a real-time basis into EPA's Drinking Water Project and Benefits Reporting (PBR) System. Idaho has been entering PBR data on a regular basis. Finally, Idaho's capitalization grants require the state to submit an annual report by October 30 every year. Idaho met this final requirement by submitting the SFY 2015 annual report on September 29, 2015.

Audits

Under EPA's audit guidance, each state is strongly encouraged to conduct a separate, annual audit of the DWSRF programs. In the Drinking Water SRF Operating Agreement between EPA and IDEQ, there is a provision for an annual audit by staff auditors from the Legislative Services Office. During the past several years, including SFY 2015 the Idaho DWSRF program has undergone an annual audit. Also, occasionally the DWSRF program will be treated as a major program under the Statewide Single Audit (SSA). The SSA for SFY 2014 contained two follow-up reports on findings from the SFY 2013 SSA. Those findings were related to principal forgiveness tracking and reporting, as well as FFATA reporting. Both findings were considered closed as of the SFY 2014 SSA report. The Idaho LSO auditors completed the field work for the SFY 2014 audit and issued the final audit report on June 23, 2015. There were no audit findings. At the time of this review the audit for SFY 2015 was still underway and the audit report was pending finalization of the audit. Preliminary feedback from the auditor to DEQ indicates that there will be no findings.

With regard to the subrecipient audits that are required of DWSRF borrowers that expend more than \$750,000 in Federal funds in a fiscal year, IDEQ has a standard loan condition that addresses this audit requirement. In addition the state provides annual guidance to borrowers about how much in Federal funds they received during the period.

Review of Project Management Practices

The 1996 SDWA Amendments and the DWSRF program regulations also contain a series of requirements that address how the Drinking Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. EPA's review of those aspects of the Idaho DWSRF program for SFY 2015 is discussed in this section of the Program Evaluation Report.

Eligible Activities [40 CFR §35.3525]

The 1996 SDWA Amendments require that Drinking Water State Revolving Funds limit themselves to providing specific types of financial assistance (in addition to the assistance provided through the set-aside programs). Those five types of assistance, defined in the Safe Drinking Water Act include:

1. Loans at or below market rates (as low as 0%) to finance publicly and privately-owned drinking water infrastructure projects;
2. Assistance to disadvantaged communities, including principal forgiveness, negative interest, for a loan term up to 30 years in length;
3. Buying or refinancing the local debt obligations of municipalities and intermunicipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred and SDWA-eligible construction started after July 1, 1993;

4. Guaranteeing, or purchasing insurance for, local obligations where such action would improve credit market access or reduce interest rates for SDWA-eligible assistance; and
5. Providing a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the Fund.

Since the last on-site review the Idaho DWSRF has issued one new loan and several loan increases for a total of \$11,718,382 to provide the type of assistance allowed by the Safe Drinking Water Act and the program regulations. The reduced interest rate and principal forgiveness offered for the one new project will save ratepayers approximately \$7.3 million in finance charges over the life of the loan. File reviews of this project, as well as several projects funded in prior years, were conducted during EPA's annual review on November 16 – 18, 2015.

Intended Use Plan Development [40 CFR §35.3150]

Each Drinking Water SRF program is required to prepare a plan identifying the intended uses of the funds in its SRF and describing how those uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subjected to public review and comment before being submitted to EPA. EPA must receive the IUP before the capitalization grant can be awarded.

The Idaho DWSRF program submitted a draft SFY 2015 IUP in June 2014, and then a final version in September 2014. This IUP was accepted and served as the basis for the award of the capitalization grant available from the FFY 2014 allotment.

Achievement of Goals and Objectives

The SFY 2015 Intended Use Plan spelled out goals for the Idaho Drinking Water State Revolving Fund. Idaho's progress in achieving these goals can be found in the table below.

Table 16: Idaho DWSRF Goals – SFY 2015		
Long Term Goals		State Progress Update
1	Protect public health of citizens served by drinking water systems by offering financial assistance to construct the most cost-effective drinking water facilities. Financial assistance includes below-market-rate loans, longer loan terms, and may include principal forgiveness for	<i>Through the end of SFY 2015 Idaho had completed 19 annual rounds of establishing priority lists in order to make DWSRF funding available. The demand for funding has historically outstripped the amount available, and DEQ does not want communities to have to unnecessarily incur the cost of preparing an application. So loan applications</i>

	disadvantaged communities under limited circumstances.	<i>were only solicited for an amount equal to funds available. However, because that is no longer the case, at least in recent years, EPA recommends that Idaho look at overcommitting funds, or committing funds beyond those funds that are currently available. In the SFY 2016 IUP, DEQ is seeking to address this issue by merging the Priority list and Fundable list, since the available funds can meet the needs of both project lists.</i>
2	Assist public water systems in achieving and maintaining statewide compliance with federal and state drinking water standards. DEQ will provide information and technical assistance in the form of brochures and the electronic Drinking Water Blog, which contains articles on such topics as the DWSRF, operator training and certification, and treatment technology.	<i>DEQ has provided information and technical assistance in the form of brochures, use of social media, auto dialer phone, email messaging and articles in the quarterly Drinking Water Newsletter, on such topics as the DWSRF, operator training and certification, and ground water under the direct influence of surface water monitoring and treatment technology. EPA believes that DEQ is effectively accomplishing this goal with financial support from the DWSRF program, the PWSS program, as well as state funds.</i>
3	Implement a capacity development strategy. The goal of the capacity development program is to ensure that a public water system's current capacity to deliver safe, reliable water is not only maintained but is expanded to meet future needs. This goal is facilitated by supporting public water systems in maintaining and expanding their technical, financial, and managerial capacity.	<i>DEQ continues to implement an effective and successful Capacity Development program. To that end, the TFM guidance document is being revised and updated, training on surface water system optimization was offered, and planning grants, which allow water systems in preparing engineering reports and documents necessary to apply for DWSRF loans, continue to be funded out of the Capacity Development set-aside.</i>
4	Implement a source water assessment and protection strategy. A source water assessment provides information on the potential threats to public drinking water sources. In Idaho, 96% of the drinking water comes from ground water sources.	<i>DEQ continues to effectively assess threats to public water sources. But more importantly, Idaho has shifted the focus to protecting those drinking water sources using a combination of technical and financial assistance, educational materials and training opportunities.</i>
5	Manage the Idaho DWSRF to ensure its financial integrity, viability, and revolving nature in perpetuity.	<i>DEQ has undertaken a number of significant actions to address the pace of the loan program, while keeping in mind the need to maintain the DWSRF program's financial integrity, viability, and revolving nature. Those include; reengineering the loan handbook, applying a kaizen process to the DWSRF SERP, requesting that small systems be allowed to avoid compliance with AIS and Davis-Bacon, and applying equivalency. EPA applauds these efforts and looks forward to continuing work</i>

		<i>with DEQ to address the pace issue.</i>
6	Entering into SFY 2015, there has emerged an imbalance in the DWSRF and CWSRF loan funds' ability to serve the state's needs.	<i>DEQ was able to address this imbalance by transferring \$10 million from the DWSRF to the CWSRF in October 2014. Because an imbalance remains, DEQ plans to make a similar transfer during SFY 2016. EPA recognizes that this is an eligible activity, and that the transfer does provide an environmental benefit via the CWSRF program. But (to the extent that demand for DWSRF funds exists) EPA would prefer that funds in the DWSRF program be fully utilized to provide a public health benefit via loans for DWSRF projects.</i>
Short Term Goals		State Progress Update
1	Perform the tasks necessary to ensure that all appropriate loan assistance requested is provided in a timely manner.	<i>DEQ has continued to work diligently to provide loan funding to interested applicants.</i>
2	Maintain the on-line DWSRF loan handbook, by making miscellaneous technical corrections and providing timely, up-to-date guidance.	<i>DEQ incorporated a number of revisions into a comprehensive update of the loan handbook.</i>
3	Direct a minimum of approximately 10% of the capitalization grant to sustainability efforts (i.e., Green Project Reserve) and ensure that 20% of the capitalization grant award is provided as a loan subsidy (i.e., principal forgiveness).	<i>While GPR has not been required for the DWSRF program since 2011, DEQ has continued to retain GPR goals to encourage cost effective infrastructure management practices. EPA applauds this voluntary effort which, during SFY 2015, recorded \$6.7 million in GPR activity. With respect to loan subsidy, DEQ continues to meet the requirement by equitably distributing the minimum amount of additional subsidy to loan recipients.</i>
4	Make necessary changes to the FFY 2014 EPA capitalization grant application.	<i>DEQ successfully submitted its grant application.</i>

Findings and Recommendations

1. **Loan Demand:** Over the last few years Idaho has had more money available for loans than actual demand for loan funds. While DEQ has little to no control over whether or not a community seeking funding will actually sign a DWSRF loan, EPA requests that DEQ explain what additional measures will be taken to increase loan demand, as well as the amount of dollars committed so far during SFY 2016.
 - a. *DEQ response: We are in the midst of streamlining our loan process to make it more attractive to borrowers. There have been two big reasons for the down-tick in demand: new Federal regulations and our complex application process. While we have no control over the burdens placed upon us from the Federal level, we can impact our application process. Example of changes include:*
 - i. *We are (as noted in this Report) rewriting our loan handbook to greatly reduce the number of forms.*
 - ii. *We are focusing our SERP efforts on a realistic appraisal of significant effects, so that we should only require Categorical Exclusions for the majority of our projects.*
 - iii. *We are going to take full advantage of the discretion allowed us by the equivalency requirements: thereby lowering the administrative burden on the majority of our borrowers.*
 - iv. *We will try to impact the demand side by looking at expanding our conception of traditional eligibilities. We have introduced this notion by allowing for the potential of source water protection loans, when a causal linkage can be shown between drinking water degradation and source water degradation.*
 - v. *We have entered into contracts with both RCAC and IRWA to provide free assistance to small communities, to help them address administrative burdens associated with DWSRF loans.*
 - vi. *So far in SFY 2016 we have signed one loan (City of Ketchum) in the amount of \$499,000. In addition we have 3 or 4 applicants in the pipeline that should result in a total loan amount of approximately \$20 million for SFY 2016.*
2. **Assisting water systems with meeting Federal requirements:** Part of the slowdown in loan demand is due to the actual or perceived additional burden to borrowers to comply with newer Federal requirements such as Davis-Bacon and AIS. Idaho has had some success at assisting with Davis-Bacon compliance by directing borrowers to work with Councils of Government (COGs). However, these two requirements, taken together, are often dissuading borrowers from seeking DWSRF funding and instead turning to other sources of Federal funding that do not have

similar requirements. In light of this issue, we advise DEQ to direct additional staffing (and/or contractor) resources at providing direct technical assistance to borrowers. This assistance would have the dual benefit of making these DWSRF loan requirements less onerous for borrowers, as well as provide an additional level of assurance to DEQ and EPA that those requirements are being fully and satisfactorily met. ****Completed (see DEQ responses above)****

3. **SERP revision implementation:** In a related effort to make the DWSRF program less cumbersome for borrowers, DEQ has undertaken a systematic process to streamline implementation of the NEPA-like State Environmental Review Process (SERP) for DWSRF projects. At the time of this annual review, DEQ had submitted a revised SERP to EPA Region 10 for comment and approval. In light of this being another way to improve the program's marketability, EPA pledges to not be an impediment in getting the revised SERP quickly approved and ready to implement for Idaho DWSRF projects.
4. **Set-aside transaction testing:** Please answer the questions (page 16) raised about several of the set-aside transactions. ****Completed****